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JAPANESE TRADE BARRIERS TO FOREST PRODUCTS

HEARING

BEFORE THE
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OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS

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JAPANESE TRADE BARRIERS TO FOREST PRODUCTS

MONDAY, FEBRUARY 26, 1990

**U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.**

The hearing was convened, pursuant to notice, at 2:12 p.m. in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senator Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-12, Feb. 22, 1990]

FINANCE SUBCOMMITTEE ON TRADE TO HOLD HEARING ON JAPANESE TRADE BARRIERS TO FOREST PRODUCTS

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Thursday the Subcommittee on International Trade will hold a hearing to evaluate progress thus far in the negotiations to open the Japanese forest products market, and explore trade retaliation should the talks fail.

The hearing is scheduled for Monday, February 26, 1990 at 2 p.m. in room SD-215 of the Dirksen Senate Office Building.

Senator Baucus said, "Japanese trade barriers to forest product imports are costing the United States between one and two billion dollars in lost exports and 10,000 jobs each year. In the face of a \$50 billion annual trade imbalance, these barriers must be removed."

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. The hearing will come to order.

Trade relations today between the United States and Japan are, unfortunately, becoming quite a bit more strained. The polls show that more than 70 percent of U.S. citizens now say that they favor retaliating against Japan for its trade barriers, and a strong majority now view Japan as a greater threat to the U.S. interests than the Soviet Union.

The trade imbalance between the United States and Japan seems to be stuck at about \$50 billion a year. American businesses continue to cite many Japanese trade barriers that deny them access to the Japanese market. All major U.S. business organizations, including the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Emergency Committee for American Trade, now favor strong U.S. Government action to open the Japanese market.

The trade negotiations between the United States are deadlocked. As a friend of Japan and of the Japanese people, I call upon the Government of Japan to recognize these realities and demonstrate leadership. Japan has benefited more than any other nation from the open and free trading system in the world. But Japanese trade barriers now threaten to destroy that system and the strong ties between the United States and Japan.

Certainly the trade imbalance is not all Japan's fault. We Americans, for example, must continue to lower our Federal budget deficit. But only the Japanese Government can eliminate Japanese trade barriers and open the Japanese market. Unfortunately, leadership has not been forthcoming from Japan.

I am therefore today forced to call this hearing to consider legislation to impose sanctions on Japan in retaliation for its trade barriers.

We have for many years pressed Japan to open up its market. Unfortunately, increasing our requests are met with excuses, not with action. The most popular excuse made today is that United States products are just not good enough to compete in the Japanese market. But this excuse cannot survive critical examination.

Consider the case of the U.S. forest products industry. The U.S. forest products industry is recognized as the world leader. It is the leading producer and exporter of most lumber products. The quality of U.S. forest products is unquestioned. One forest products company that operates in my State, the Plumb Creek Timber Co., has gone to great lengths to build plants designed to produce specifically for the Japanese market. Yet Japan insists on keeping manufactured forest products out of the Japanese market and importing only logs in order to support its own inefficient forest products industry.

Consider the following comparison. Approximately 92 percent of the forest products that the U.S. exports to Europe are manufactured products, leaving only about 8 percent as unprocessed products. But only 30 percent of U.S. forest product exports to Japan are manufactured, while 70 percent are logs and other unprocessed products.

As is so often the case, Japan insists on importing only raw materials and keeping all the value added benefits for itself. The forest products barriers alone are costing the United States \$1 to \$2 billion in lost exports each year. That converts to about 10,000 to 20,000 jobs lost in the United States.

In the face of a \$50 billion bilateral trade deficit, this is an outrage, a situation that must change. The United States is allowing Japan to exploit valuable natural resources without demanding a share of the economic benefits.

Last summer, the administration announced that eliminating these forest product trade barriers is one of the United States' top three priorities for Japan, but no progress has been forthcoming on any of the three priorities. It is, therefore, time for stronger action.

Under the 1988 Trade Act Super 301 provision, Japan has until June 17th to agree to open its market to U.S. exports of forest products, supercomputers, and satellites. The purpose of this hearing is to review progress made in the negotiations to open the Jap-

anese forest products market and consider options for retaliation if the talks fails to conclude on schedule.

Let me state at the outset that no one wants the talks to end in retaliation. Certainly, I do not. But if Japan refuses to open its market, the United States has no choice. It is time to take a hard look, therefore, at our options. And after this hearing, I plan to draft legislation that directs the administration to retaliate against Japan if the Super 301 talks do not conclude on schedule. I plan to move this legislation in a Finance Committee markup to be held later this week.

I have also asked a number of representatives of the U.S. forest products industry to join us today to review the situation. I look forward to their testimony.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator BAUCUS. We have on our panel Mr. Stanley Dennison, who is chairman of the Alliance for Wood Products Exports, Atlanta, GA; Mr. Stephen M. Lovett, vice president, International Trade, National Forest Products Association, here in Washington, DC; and Mr. "Kip" Howlett, Jr., director of government affairs for the Georgia-Pacific Corp. Stan why don't you proceed.

**OPENING STATEMENT OF STANLEY S. DENNISON, CHAIRMAN,
ALLIANCE FOR WOOD PRODUCTS EXPORTS, ATLANTA, GA**

Mr. DENNISON. Thank you. Good afternoon, Senator.

My name is Stan Dennison, and I am chairman of the Alliance for Wood Products Exports. This is a special project of the National Forest Products Association representing 85 percent of the U.S. wood products industry. Our one single goal is to open the Japanese wood products market and increase sales of U.S. wood products to Japan.

We are a highly efficient industry fully capable of competing in international trade. Our costs per unit volume are on average, far less than Japanese costs.

We have made long-term marketing efforts in Japan for almost three decades. We produce quality products which are in demand in Japan and which could benefit the Japanese consumer and improve the housing situation in Japan. So why are we here?

Japanese barriers to wood products imports, identified in an April 1989 study by the Department of Commerce, reduce U.S. exports to Japan of value-added wood products by billions of dollars annually. Thus, in June 1989, USTR initiated an investigation of Japanese policies and practices, including technical standards favoring Japanese producers that restrict imports of forest products in Japan under the Super 301 provision of the 1988 Trade Act. Without successful negotiation for elimination of these barriers, the Trade Act contemplated that the United States would retaliate against the closed Japanese markets.

Given Japan's response to the negotiations to date, we have serious doubts that this process will meet Congress' intent of opening closed foreign markets. Limited success on minor technical barriers will not open the Japanese market and will not result in the export

gains which are possible, nor would such limited success meet Congress' trade policy objectives.

Japanese tariffs and tariff escalation must be eliminated and unnecessarily restrictive codes and standards must be modified. This is where we need your help, Senator.

These negotiations are likely to succeed only if Japan understands not only the technical merits of the U.S. position which are rock solid, but Japan must also understand the political necessity of solving these problems for overall trade relations. Japan must understand that failure to open this market will be an important sign of unwillingness to address closed markets which are a crucial factor in the trade imbalance.

This is a matter in which settlement would benefit Japan as much as the United States. We would hope that Japan would appreciate that opening this market would reduce the cost and improve the availability of high-quality building products for Japanese consumers. Opening this market would increase the consumption of wood products in Japan. Opening this market would strengthen Japanese efforts to maintain trade in raw materials.

Absent the opening of the Japanese market, we understand that it is likely that there will be retaliation. We know that failure to act would demonstrate the bankruptcy of U.S. trade policy. Therefore, the two nations, Japan and the United States, are on a collision course.

The U.S. industry does not want retaliation of any kind. We do not want to close markets to Japan. Closing our market will not sell more value-added wood products to Japan. We want and need to open the Japanese market to competitive wood products.

Given the history of United States-Japan trade disputes, however, it is clear why this committee is meeting today. Experience demonstrates that Japan is most likely to open its market when it understands that foreign action will be swift and sure.

I am reminded of the softwood lumber case with Canada. While a dispute over Canadian timber subsidies had existed for more than 20 years, and various efforts had been made to settle the dispute, it was not resolved in fruitful negotiations until the United States demonstrated that countervailing duties would be the sure result of Canadian subsidies.

Senator Baucus, we very much welcome your support. Your concern sends a clear signal to the negotiators that this dispute must be successfully resolved. A negotiated resolution is in the interest of the U.S. industry, Japanese consumers and builders and both governments. If negotiations are not successful, we recognize that the risks are high of further trade action. We understand that Congress is in no mood to sit idly by as another competitive U.S. industry loses billions of dollars in sales to Japan.

The unfortunate reality is that without that kind of increased political focus—in Congress and in the administration—resolution of this reasonable request for market access is likely to be late, little and ineffective.

Let me just say that the benefits of success is that it is a win-win situation. The Japanese get lower cost housing or larger housing; the United States gets more jobs for its workers in export manufactured products, and that would be a win-win situation. And I think

it is terribly unwise for the Japanese Government not to accept the proposal that the woods products industry and the USTR have put forward.

Thank you, Senator.

[The prepared statement of Mr. Dennison appears in the appendix:]

Senator BAUCUS. Thank you.

Mr. Lovett.

STATEMENT OF STEPHEN M. LOVETT, VICE PRESIDENT, INTERNATIONAL TRADE, NATIONAL FOREST PRODUCTS ASSOCIATION, WASHINGTON, DC

Mr. LOVETT. Thank you, sir.

My name is Steve Lovett. I am vice president of international trade of the National Forest Products Association.

I would like to second Stan's point that eliminating the Japanese barriers would benefit the United States and Japanese industries, the Japanese consumer and United States-Japan trade relations. That doesn't mean it will be easy. In fact, it has to be made perfectly clear that if dramatic results are not forthcoming from Japan, prompt retaliatory action will be taken. Otherwise, results will be, as Stan says, little, late and ineffective. My point is that we can succeed if we can focus the discussion with enough congressional and administration interest and we can communicate our concerns effectively to Japan.

Let me take a moment to discuss the barriers.

Tariffs and tariff escalation seriously impede U.S. wood products imports. While even on a nominal basis, Japan's wood products tariffs are much higher than U.S. tariffs, the effective rate of protection on value-added products resulting from tariff escalation is two or three times the nominal rate.

Efforts to eliminate tariffs have been met with only limited success. In the Tokyo Round of multilateral trade negotiations, the Japanese hid wood products and agriculture. They are taking the same strategy in the Uruguay Round and we can expect no progress there without bilateral commitments from Japan.

The U.S. industry views tariff elimination as crucial to real market opening. Solving some technical barriers while leaving tariff escalation in place would not open the Japanese market.

With respect to standards and codes, a web of unnecessary standard and code restrictions inhibit the use and importation of wood products in Japan. Let me be clear: we are not asking, and would never ask, that Japan in any way endanger lives or safety. Wood products are safe building materials, in many cases safer than the alternatives. My written testimony goes into this in great length.

Technical restrictions not only harm the United States and Japanese wood products industry, but they injure the Japanese consumer. Both for the sake of trade relations and for inadequate housing conditions in Japan, these barriers to the safe, cost-effective use of wood products should be removed.

With reference to Customs' misclassification, in clear violation of the requirements of the Customs cooperative council nomenclature, to which Japan subscribes, Japan has misclassified several high-

tech U.S. wood products. This Customs misclassification has artificially increased the tariff on structural laminated lumber products, including both posts and beams, as well as laminated veneer lumber from 3.9 percent to between 15 to 20 percent.

I would also like to point out that in addition to subsidies and structural issues, the anti-competitive practices need to be addressed and these are discussed as well in my written testimony.

Japan's barriers discriminate against U.S. wood products. These barriers are unfair and must be a priority concern for the United States.

Tariff escalation, for example, impedes imports of value-added U.S. wood products in order to protect Japanese processors while they upgrade their industry to get to the point where they can compete with us.

Many certification barriers are explicitly discriminatory. U.S. mills must go through a lengthy and expensive certification process with Japanese authorities. This is true even though the American Plywood Association has been certified as a Japanese agricultural standards foreign testing organization. By comparison, Japanese mills can merely rely on their registered grading organization to certify their compliance with the regulations to the Japanese Government, just as organizations like the American Plywood Association certify mills in the United States.

What makes this barrier so unreasonable is that U.S. grading agencies marks are accepted around the world and many important Japanese products are permitted to self-certify into the U.S. market.

Further, Japanese standards, such as the approval for new products or systems and quality control requirements, are applied discriminatorily. One U.S. mill owner reported that while his company was undergoing rigorous quality control certification for JAS approval, he toured a competitor's mill in Japan where the quality control equipment was nonfunctional.

As a matter of trade policy, it would be ridiculous to ignore this discrimination. Japan, for example, has a comparative advantage in the production of VCR's. Certainly Japan would consider it an unfair restriction if U.S. standards dramatically and unnecessarily impeded sales of all VCR's, whether United States or Japanese. By the same token, U.S. mills have a comparative advantage in wood products production, and they should be permitted to enjoy that advantage in an open Japanese market.

The United States and Japan have been engaged in wood products negotiations since September. Unfortunately, Japan has shown little willingness to modify its restrictive market barriers, particularly tariffs.

Japan must be made aware of the importance of a successful resolution of these matters:

From a trade policy perspective, the United States needs a signal in wood products negotiations that Japan is serious about opening markets and addressing the trade imbalance.

Increased imports of high-quality, reasonably priced wood imports would benefit Japanese consumers and improve the quality and affordability of Japanese housing.

Real progress in opening Japan's market to value-added wood products would have an enormous beneficial impact with respect to U.S. decisions concerning logs. And with respect to this, I would like to add that NFPA's position on log exports is as follows: That the ban on exports of logs from Federal lands be made permanent; that regulations regarding substitution of logs be modified; and that private land owners have the right to seek the best markets for their products. NFPA takes no position on exports of logs from State lands.

Furthermore, I believe that because this is such a divisive issue for the industry, in my view it would be counterproductive to inject the log export issue into the Super 301 process. The log export issue should not be allowed to deter the United States from the real objective of fully opening the Japanese market for further processed wood products. Japan should understand that the best way to guarantee access to U.S. raw materials is to provide access to its market for value-added products.

Furthermore, failure to make real gains on wood products would seriously affect Japan in future implementation of the 1988 Trade Act, including 1990 designations, and in possible future legislation. And, finally, removal of the barriers would not significantly injure the Japanese industry, because increased consumption could more than compensate for increased imports.

Senator Baucus, we hope that you will assist the U.S. industry in communicating the importance of a successful resolution of this problem to the Japanese Government, industry and involved parties in the United States. Success is so important to the U.S. industry and to United States-Japan trade relations. Success may evade us, however, if Congress is not a full participant in the process.

Your interest, Senator Baucus, is critical to the successful resolution of this dispute to the benefit of both countries. And we thank you so very much for your strong efforts in this regard.

Senator BAUCUS. Thank you.

[The prepared statement of Mr. Lovett appears in the appendix.]

Senator BAUCUS. Mr. Howlett.

STATEMENT OF C.T. "KIP" HOWLETT, JR., ESQUIRE, VICE PRESIDENT FOR GOVERNMENT AFFAIRS, GEORGIA-PACIFIC CORP.

Mr. HOWLETT. Chairman Baucus and Senator Symms, I want to thank you and the other members of the subcommittee for giving me the opportunity to testify today on the important issue of the wood products talks with Japan. As I am sure you are aware, the success of those talks is a matter of the greatest interest to the U.S. wood products industry.

My name is Kip Howlett. I am vice president of government affairs at Georgia-Pacific. GP is a member of the alliance for Wood Products Exports and an enthusiastic supporter of the wood products market access talks with Japan.

GP forest products, like other U.S. forest products, are highly competitive in the international marketplace, and we have used our competitive edge to increase sales in Europe, Latin America, and the Pacific Rim. In Europe, for instance, 90 percent of our sales are finished products. In Japan, however, the ratio is re-

versed. And this is precisely the situation facing the entire industry.

We are convinced that we would be able to increase dramatically our sales of value-added wood products in the Japanese market if the Government of Japan eliminated the trade barriers that keep us out, the barriers outlined by Stan Dennison and Steve Lovett. That is why we are such strong supporters of the Super 301 wood products negotiations. We believe that if the administration, Congress and the industry fully commit themselves to the process, we can break down those barriers and tap the enormous potential of the Japanese market, for our benefit and the benefit of the Japanese builders and consumers.

Senator Baucus, this fight over access to the Japanese wood products market has been going on for a long time. There were talks back in 1985 that generated an agreement that was supposed to solve those problems. In fact, the agreement was only a limited solution. The Department of Commerce did a detailed study of the problem in 1988 and 1989 and concluded that there were still tremendous barriers.

In 1988, Congress passed the Super 301 law and the Trade Representative picked Japanese wood products barriers as one of a handful of cases to receive priority attention. Since then, there have been five rounds of talks between the United States and Japan. The industry has worked closely with the administration every step of the way, doing exhaustive research to give the U.S. Government the evidence it needed to prove its case. I think we have shown, beyond a shadow of a doubt, that the barriers we face are real and that they are unjustified.

The negotiations with Japan are now reaching a critical phase. With just a few months to go, the Government of Japan has made virtually no concessions and the talks are in danger of stalling out or succeeding with only half measures. If that happens, and the market is not fully opened, rather than harmony in our trading relations, there will be confrontation. The risks are great that the two countries are drafting toward confrontation now.

Senator Baucus, we want meaningful market access. Retaliation does not sell wood products, and it is not our goal. But real market access is necessary, a real opportunity to sell products we know the Japanese people want to buy. We ask that Congress and the administration deliver the unequivocal message that full and fair access must be granted now for wood products, just as Japan expects and receives full access in the United States for its products. That is why we need your help; that is why your efforts this week are so crucial, and that is why I am here today.

The United States' experience in trade negotiations with Japan is a sad one. Repeatedly, the Government of Japan has shown that it will not give up an inch of ground more than it has to in trade negotiations.

The Advisory Committee for Trade Policy and Negotiations recently concluded that the United States must "be tough and willing to use all its leverage" to win real concessions from Japan. The committee further noted that "when faced with credible threats of retaliation that adversely affects their interests," Japan usually

acts in its own best interests and comes to a mutually satisfactory arrangement. This is an appalling state of affairs.

Senator Baucus, I am convinced that the United States and Japan can achieve an agreement that provides real market access for U.S. value-added wood products. Such an agreement will benefit the American wood products industry, the Japanese construction industry and, importantly, the Japanese consumer. But it will not be easy and it will not just happen. The administration will need the full and unequivocal support of Congress. The Government of Japan must know that we are serious about this issue. And the wood products industry appreciates your efforts to communicate this message unequivocally.

Thank you.

[The prepared statement of Mr. Howlett appears in the appendix.]

Senator BAUCUS. Thank you very much, Mr. Howlett.

All three of you made a point which I think must be underlined, and that is, many people in Japan say, well, you Americans just don't manufacture high quality products. And that's why you have a difficult time exporting to Japan. We are talking here about a product that not only is a manufactured product but is a product which is of the highest quality in the world. I don't think anyone seriously denies that. And let me highlight that with a personal experience.

We have all been through American mills: lumber mills, plywood, liner board, fiberboard mills. I, certainly in my State of Montana, have spent a lot of time in the mills in my State. In fact, I have this workday project. One day a month I work at some job back in my State. And I have worked in the Green Chain lumber mills in my State and at a plywood plant in my State. I was very, very impressed with the quality and the technology in those mills.

I have also been through a Japanese plywood plant, and I can tell you without one wit of exaggeration that I was astounded at how inefficient it was and how low the level of technology. I mean, I didn't think I was in Japan. That was juxtaposed against another experience. I visited Toyota City. I went through a Toyota assembly plant there; an engine plant, and I was very surprised to see virtually no employees. It is all done by robotics on an assembly line. The only employees there are the ones that make sure everything is running on time. Comparing that with the Japanese plywood plant, I was just astounded.

So the point I must make again is that there is just no comparison between American plywood plants and Japanese plywood plants. I am not saying that every Japanese plywood plant looked like the one I went through, but I have got to think it was somewhat representative because, after all, the Japanese themselves took me through this plant.

So it is critical that people understand that we are talking about a very, very high quality product here, and a very efficient manufacturing process. The reason why our high quality product is not being purchased in Japan is not because of inferior quality in the product; it is because of the Japanese barriers against our product. I don't think anybody can seriously dispute that point. It is a point

that you all made and it is a point which I think must be underlined.

Now you made another point which was very good. That is, it is a win-win situation if Japan opens up. It means that we Americans can export more products on a free trade basis as we rightfully should be able to do, and it also means that Japanese consumers get a higher quantity of a higher quality product. The Japanese construction industry gets a higher quantity of a higher quality product. And, in fact, I think it will stimulate business activity and economic activity in Japan if more Japanese are purchasing more products.

Now it is true that it puts more competitive pressure on the Japanese forest products industry, but that is what competition is all about.

It reminds me of efforts we have undertaken to encourage Japan to buy more U.S. beef. I have been in Japan several times encouraging them to purchase more American beef. I went to meat expositions in Japan using American beef. I even learned the Japanese word for "delicious." You get on Japanese television, and eat American beef, and say "delicious, help promote American beef." And I learned too that the Japanese housewife, contrary to the wishes of the Japanese cattle producer, wanted the Japanese Government to open up so they too could eat more American beef.

Densu is a major public relations polling firm in Japan which took a poll, asking Japanese housewives what they want, and they concluded, according to this poll, that 70 to 80 percent of the Japanese housewives disagreed with the Government's position. They wanted more American beef. And I talked to Japanese parliamentarians who said they too wanted to open up. That is, parliamentarians from Tokyo, not from out in the countryside.

So I think if the Japanese Government listens to the Japanese consumer, as well as to the Japanese forest products industry, that they are going to be doing more of their people more good if they open up and take a higher quality product in a greater quantity.

Senator Symms.

Senator SYMMS. Thank you very much, Mr. Chairman. And, gentlemen, thank you for your excellent statements. And, Mr. Chairman, thank you for your two statements.

I find myself in agreement with what you are saying.

What is really happening here, and what I hope the Japanese Government will listen to, is what we are really saying is when an average typical Japanese has to buy a house costing 10 times what their annual earnings are, compared to the average typical American who buys a house costing three times what their annual earnings are, and the Japanese house for comparable per capita income is one-half the size of the house the American is buying, their Government is literally, by denying them those products, stealing an opportunity for them to have a better opportunity for life. That is the story that needs to come out of this hearing. The Japanese Government is stealing from the Japanese people by denying from them access to American wood products.

I think Senator Baucus is absolutely correct in terms of technology. We have a company that does a lot of business in Oregon and Idaho and Washington, and I know you are all familiar with, in

veneer wood products, T.J. International. T.J. International, since the outset, has averaged spending 5 percent of its total sales in R&D on developing new wood products. They have been one of the leaders in the industry in terms of strength of wood products, lightweight, new modern construction for roofing with wood. They have been a marvelous leader in the industry which many of you with other lumber and wood product companies have also made a contribution to. But we are ahead. We can offer the Japanese people better wood products, and a better opportunity for a more comfortable living arrangement at a more reasonable price, the same as our beef. I think the message has to be that this is really where the problem is.

So I guess my question that I would like to address to each of the three of you is, all of you say you don't want retaliation. What do you advise Senator Baucus and I to do as members of this committee if our trade negotiators are not successful? What remedy do you recommend?

Mr. DENNISON. I don't think you have any choice if they are not successful.

Senator SYMMS. But what?

Mr. DENNISON. If they are unsuccessful, I don't think you have any choice but to go to retaliation, and severe retaliation that will wake them up. You know, economically I think they are in the same position that Russia was militarily. You have to show strength before they react.

Senator SYMMS. Well it is interesting. You say strong response, strong medicine, in other words, you put enough pressure on so that the parliamentarian that I have had the same experience as Senator Baucus. You talk to parliamentarians from downtown Tokyo that represent 2 million people, they have a much different point of view on beef and food imports as does the parliamentarian that comes from Hakito that represents 20,000 people. And the way their setup is, the ones that represent—there is more the ones that represent 20,000 people than represent 2 million, and they all have the same vote. So it works out. But what do you recommend? What would you do specifically.

Mr. DENNISON. The type of retaliation?

Senator SYMMS. Right.

Mr. DENNISON. I don't have in mind exactly what that should be, Senator Symms. But I think that would have to be worked out between the Congress and the administration. And we would be glad to participate in those conversations. But we don't have a set of retaliations worked out. Congress and the USTR I think are better able to say what they should be.

Senator SYMMS. Mr. Lovett or Mr. Howlett?

Mr. LOVETT. Just to go back for a second, could I comment on what you said earlier, Senator Symms?

Senator SYMMS. Yes.

Mr. HOWLETT. Commenting on the cost of construction, the value of this to the Japanese consumer, we requested that a study be done in Japan by an architect who has shown that the cost of construction of exactly the same house in Seattle and in the Tokyo suburban area, land and transportation costs aside, is twice as expensive in Japan. When you add the land costs into that, the costs

get escalated way out of proportion. The cost per unit could be cut greatly if they could build multistory, multifamily garden apartments, condominiums, and so forth, which is what we are asking for in these negotiations. I know that is not your question, but I wanted to make that comment since the point you made was so relevant.

Another point is that we are very certain that if these negotiations are successful, the amount that these negotiations could be worth, \$2 billion, could be a relatively conservative amount. The Center for International Trade in Forest Products at the University of Washington has pegged this amount at quite a substantially higher figure.

As far as retaliation is concerned, I think that it has to be perfectly clear to the Japanese that if dramatic results are not forthcoming from Japan, that prompt retaliatory action will be taken. And this is something that we hope that Congress will be very firm about.

The form of that, as Mr. Dennison has said is something that we really haven't addressed. And we think that this is something that would be appropriate for the administration.

There have been suggestions made along the lines that further trade concessions to Japan could be tied to successful resolution of the forest products dispute. For this purpose, a successful resolution must include the elimination of tariffs.

In other words, the strongest leverage that we have is our market. For example, the Japanese deny our product access to their market through test and certification procedures, through a difficulty in certifying our products and getting approval for universal application of our products in Japan. If they were to receive the same kinds of impediments in exporting their products to us, they would be very unhappy.

Senator BAUCUS. I am going to ask you a series of questions which I think would be helpful in moving this along.

Could you—and I will ask any one of the three of you to respond. I would like you to evaluate the performance of the administration in these negotiations thus far. Can any one of you give me your collective view of that, very briefly, because I have got a lot of questions here.

Mr. LOVETT. The administration has been very supportive; they are negotiating hard. We have concern that differences of opinion in the administration regarding trade strategy toward Japan may undermine the message that market access is absolutely critical. And I think that would be our major point in this regard.

Senator BAUCUS. How has Japan reacted thus far to negotiations?

Mr. DENNISON. Nothing, none at all essentially, just talk.

Mr. LOVETT. Japan has gone that way many times before, Senator.

Senator BAUCUS. But is it your sense that these talks will break down or is it your sense that if we press vigorously we can reach a successful agreement and avoid retaliation?

Mr. LOVETT. Japan is stonewalling at this point. We expected the situation to improve dramatically after the elections. It did not. The talks may be moving in the right direction, but at the current

pace it is very unlikely that we will get real market opening results.

Senator BAUCUS. Is there one or two on the list of items of negotiations that are the most difficult?

Mr. LOVETT. Tariffs are extremely difficult. Japan would like to put the entire issue off to the Uruguay Round and not make a firm commitment. And I have said that in the Uruguay Round they hide in agriculture. So their strategy is to avoid negotiating tariffs and then do nothing in the Uruguay Round.

Senator BAUCUS. But what is your industry's response to Japan's point that these tariffs are bound and should be negotiated in the Uruguay Round? What is their response to that?

Mr. DENNISON. They get lost in the agricultural sector.

Senator BAUCUS. I am sorry?

Mr. DENNISON. They get lost in the agricultural sector of the Uruguay Round. And actually they have promised previously to work on these tariffs after the MOSS talks and we really haven't gotten anywhere with those.

Senator BAUCUS. So the answer is that we have already negotiated tariff reductions in the MOSS talks, and under the MOSS talks Japan had slightly reduced tariffs. The precedent is there for Japan to negotiate and lower tariffs.

Mr. LOVETT. That's correct.

Senator BAUCUS. In addition to that, the administration is willing to give credit to Japan for any tariff reductions in the Uruguay Round. Isn't that true as well?

Mr. DENNISON. Yes. They have made it very clear to the Japanese that they are willing to give credit.

Senator BAUCUS. We often hear from Japan that their product standards are not trade barriers but just high standards. What is the response to that contention?

Mr. RAGOSTA. Senator Baucus, I am John Ragosta. I am with Dewey Ballantine. We are counsel to the Alliance for Wood Products Exports.

I think that is just not the case. In fact, those high standards have the effect of discriminating against imported wood products for the benefit of domestically produced steel and concrete construction. And that is a type of trade barrier and the type of trade discrimination, given our comparative advantage in wood products, that this country ought to be concerned about. So we do find them discriminatory in unfair trade practices.

Senator BAUCUS. What you are saying is that they are product standards and they are not performance standards?

Mr. RAGOSTA. They are not based upon performance. For example, one of the primary standards and codes issues is that we would like to be permitted to build three- and four-story wood apartment and condominium complexes. And as you and Senator Symms mentioned, this would dramatically improve their cost.

There is no reason, based upon safety and fire or earthquake why that cannot be done. If you had a performance standard that says you must be able to withstand a certain an hour fire or certain stress tolerance, we could meet that standard. They simply forbid it. And we don't find that fair.

Senator BAUCUS. But what you are really saying is that earthquakes in California shake just as vigorously as earthquakes in Japan, and that fires in California are just as hot as fires in Japan. And yet, the State of California certifies in its building codes that wood products are not only proper but in many cases safer, a safer alternative. Is that correct?

Mr. DENNISON. Yes. The last earthquake in California happened to be worse than the last one in Japan.

Senator BAUCUS. I'm sorry.

Mr. DENNISON. The last earthquake in California happened to be a little worse than the last one in Japan,

Senator BAUCUS. Worse in the sense of the Richter scale?

Mr. DENNISON. Yes.

Senator BAUCUS. Not in damage?

Mr. DENNISON. Not in damage to wood construction, no.

Senator BAUCUS. Could you also explain the methodology that you have used in arriving at your conclusion that if Japan completely opens up U.S. exports would increase by \$1 to \$2 billion? Could you just very briefly touch on that, Mr. Lovett, or Mr. Ragosta?

Mr. RAGOSTA. Senator Baucus, we included our explanation of that calculation in our July submission to USTR. Essentially, we looked at the Japanese consumption of wood products on a per dollar of GNP basis, and said that based upon their preference for wood, based upon their wealth, they ought to be consuming a lot more wood products, and that a lot of those would be coming from the United States. These are obviously rough calculations. We are working with new data and we are working very closely with the U.S. Government attempting to determine precisely what the value of the barriers are, and, frankly, it may be more than that figure.

Senator BAUCUS. I understand that Ramsay Smith—I don't know whom he works for—but he came up with between \$2 and \$4 billion. Is that correct?

Mr. RAGOSTA. Ramsay Smith is from the Center for International Trade and Forest Products at the University of Washington. I believe that at your December 8th hearing in Montana he testified that the wood products market in Japan could expand by \$13 billion. Now what share of that the United States would capture is up for question. But as I said, he is looking at a very big market expansion.

Senator BAUCUS. Another point I want to make is that Japan is a big, powerful country. They are doing what they think is best for their citizens. As well they should. And, hopefully, our government enacts legislation and takes actions that are best for our citizens. But I think it is also true that no country altruistically, out of the goodness of its heart, opens up to other countries to the detriment of its own people. Thus, we are talking about trade barriers here.

Now the United States to some degree might be one of the few exceptions, but I think there is historical reason for that. But generally countries tend to drop their trade barriers when they are encouraged to by other countries. It is unlikely they do it on their own.

I apologize for going back to the beef example, but, frankly, I found that quite instructive. Many years ago I was trying to en-

courage Japan to take more American beef, and held a press conference for the Japanese press corps. I had a big button on that said, "I have a beef with Japan." And a lot of Japanese journalists came up to me afterwards and asked me to explain the double meaning of the button. But, more important, I explained that we have one-way trade with Japan. We take Japanese Hondas, Nissans, Toyotas, and VCR's, and Seiko clocks, but they just weren't taking American beef. Further, there have been many studies in Japan and reports by urban parliamentarians, which conclude that the Japanese want more American beef. And finally at the end I said, I have historically been opposed to domestic content legislation here in the Congress, particularly as it affects the auto industry. But if Japan does not open up and take American beef, I said I am going to lead the effort in the U.S. Senate to pass domestic content legislation.

Well a lot of notes were taken. The cameras were on, and so forth. And the next thing I knew there were big articles in the Japanese press, and my photograph was all over in the Japanese newspapers. And then I got letters back from American businessmen in Tokyo. It was very interesting and I will never forget it. One letter in particular said, "Dear Senator Baucus. We have never met you, don't know who you are, but you're right on." They said "The Japanese people are very courteous, they are very decent," and so forth, "but essentially only understand one language," in his judgment, he said, "and that's power."

I think that is fairly representative of all people in all countries that you have to exercise the leverage you have to encourage a country to open up. And I very much hope that we do not have to resort to retaliation. I very much hope that. It is in everyone's best interest if retaliation is not enacted. I therefore hope that our negotiators keep pressing vigorously, and that the Japanese people understand that if in fact Japan does not open up, this Congress has no recourse but to take a requisite action in order to protect America's interest.

Now we do not want to take advantage of Japan or the Japanese people; we just want to be sure that we are not taken advantage of ourselves. We have got to stand up for our rights, and our rights are an open, free trading system. But there are other actions this country can take to reduce the bilateral deficit: savings budget deficit reduction and so forth. But a large part of the deficit is due to Japanese trade barriers. And it is my very strong hope, and in fact expectation, that when Prime Minister Kifu comes to the United States and visits with President Bush, Japan will begin to show more progress in this very important issue that is, opening up its market to processed forest products.

I want to thank you all very much for coming this afternoon. I know you, Stan, travel back and forth a lot. But I want to thank you again. And the hearing is adjourned.

Mr. DENNISON. Thank you, Senator.

[Whereupon, at 3:01 p.m., the hearing was concluded.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF MAX BAUCUS

Trade relations between the U.S. and Japan are rapidly approaching a crisis.

Polls show that more than 70% of U.S. citizens now favor retaliating against Japan for its trade barriers. Strong majorities now view Japan as a greater threat to U.S. interests than the Soviet Union.

The trade imbalance between the U.S. and Japan seems to be stuck near \$50 billion a year.

American businesses continue to cite many Japanese trade barriers that deny them access to the Japanese market. All major U.S. business organizations including the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Emergency Committee for American Trade, now favor strong U.S. Government action to open the Japanese market.

But trade negotiations between the U.S. and Japan are deadlocked on all fronts. As a friend of Japan and the Japanese people, I call upon the government of Japan to recognize these realities and demonstrate leadership.

Japan has benefited more than any other nation from the free and open world trading system. But Japanese trade barriers now threaten to destroy that system and the strong ties between the U.S. and Japan.

Certainly, the trade imbalance is not all Japan's fault.

But only the Japanese government can eliminate Japanese trade barriers and open the Japanese market.

Unfortunately, leadership has not been forthcoming from Japan.

I am today forced to call this hearing to consider legislation to impose sanctions on Japan in retaliation for its trade barriers.

We have for many years pressed Japan to open its market.

Unfortunately, increasingly our requests are met with excuses, not action.

The most popular excuse made today is that U.S. products are just not good enough to compete in the Japanese market.

But this excuse just cannot survive critical examination.

Consider the case of the U.S. forest products industry.

The U.S. forest products industry is recognized as the world leader.

It is a leading producer and exporter of most lumber products.

The quality of U.S. forest products is unquestioned.

One forest products company that operates in my State—Plum Creek Timber Company—has gone to great lengths to build plants designed to produce specifically for the Japanese market.

Yet, Japan insists on keeping manufactured forest products out of the Japanese market and importing only logs in order to support its own inefficient forest products industry.

Consider the following comparison. Approximately 92% of the forest products that the U.S. exports to Europe are manufactured products—only 8% are unprocessed.

But only 30% of the U.S. forest product exports to Japan are manufactured; 70% are logs and other unprocessed products.

As is so often the case Japan insists on importing only raw materials and keeping all the value-added benefits in Japan.

The forest product barriers alone are costing the U.S. \$1 to \$2 billion in lost exports each year. That converts to 10,000 to 20,000 jobs lost in the U.S.

Particularly in the face of a \$50 billion bilateral trade deficit, this is an outrage. The situation must change.

The U.S. is allowing Japan to exploit valuable natural resources without demanding a share of the economic benefits.

The U.S. has been made a "hewer of wood and drawer of water" for Japan.

Last summer, the Administration announced that eliminating these forest product trade barriers was one of the U.S.' top three priorities vis-a-vis Japan. But no progress has been forthcoming on any of the three priorities.

It is time for stronger action.

Under the 1988 Trade Act's Super 301 provision, Japan has until June 17th to agree to open its market to U.S. exports of forest products, supercomputers, and satellites.

The purpose of this hearing is to review progress made in the negotiations to open the Japanese forest products market and consider options for retaliation if the talks fail to conclude on schedule.

Let me say at the outset that no one wants the talks to end in retaliation. But if Japan refuses to open its market, the U.S. has no choice. It is time to take a hard look at options.

After this hearing, I plan to draft legislation that directs the Administration to retaliate against Japan if the Super 301 talks do not conclude on schedule.

I plan to move this legislation at a Finance Committee mark-up to be held later this week.

I have asked a number of representatives of the U.S. forest products industry to join me today to review the situation. I look forward to their testimony.

PREPARED STATEMENT OF STANLEY S. DENNISON

My name is Stan Dennison, I am chairman of the Alliance for Wood Products Exports: a special project of the National Forest Products Association representing 85% of the U.S. Wood Products Industry. Our single goal is to open the Japanese wood products market and increase sales of U.S. wood products to Japan.

We are a highly efficient industry fully capable of competing in international trade. Our costs per unit volume are, on average, far less than Japanese costs.

We have made long-term marketing efforts in Japan for almost three decades. We produce quality products which are in demand in Japan and which could benefit the Japanese consumer and improve the housing situation in Japan.

So why are we here?

SUPER 301

Japanese barriers to wood products imports, identified in an April 1989 study by the Department of Commerce, reduce U.S. exports to Japan by billions of dollars of value-added wood products annually. Thus, in June 1989, USTR initiated an investigation of Japanese "policies and practices, including technical standards favoring Japanese producers, that restrict imports of forest products in Japan" under the Super 301 provision of the 1988 Trade Act. Without successful negotiation for elimination of those barriers, the trade act contemplated that the United States would retaliate against the closed Japanese markets.

Given Japan's response to the negotiations to date, we have serious doubts that this process will meet Congress' intent of opening closed foreign markets. Limited success on minor technical barriers will not open the Japanese market and will not result in the export gains which are possible. Nor would such limited success meet Congress' trade policy objectives.

Japanese tariffs and tariff escalation must be eliminated and unnecessarily restrictive codes and standards must be modified. This is where we need your help.

These negotiations are likely to succeed only if Japan understands not only the technical merits of the U.S. position, which are rock solid, but Japan must also understand the political necessity of solving these problems for overall trade relations. Japan must understand that failure to open this market will be an important sign of unwillingness to address closed markets which are a crucial factor in the trade imbalance.

This is a matter in which settlement would benefit Japan as much as the United States. We would hope that Japan would appreciate that opening this market would reduce the cost and improve the availability of high-quality building products for Japanese consumers. Opening this market would increase the consumption of wood products in Japan. Opening this market would strengthen Japanese efforts to maintain trade in raw materials.

RETALIATION

Absent the opening of the Japanese market, we understand that it is likely that there will be retaliation. We know that failure to act would demonstrate the bankruptcy of U.S. trade policy. Therefore, the two nations, Japan and the United States, are on a collision course.

The U.S. industry does not want retaliation of any kind. We do not want to close markets to Japan. Closing our market will not sell more value-added wood products to Japan. We want and need to open the Japanese market to competitive wood products.

Given the history of U.S./Japan trade disputes, however, it is clear why this committee is meeting today. Experience demonstrates that Japan is most likely to open its market when it understands that foreign action will be swift and sure. I am reminded of the softwood lumber case with Canada. While a dispute over Canadian timber subsidies had existed for more than 20 years, and various efforts had been made to settle the dispute, it was not resolved in fruitful negotiations until the United States demonstrated that countervailing duties would be the sure result of Canadian subsidies.

Senator Baucus, we very much welcome your support. Your concern sends a clear signal to the negotiators that this dispute must be successfully resolved. A negotiated resolution is in the interest of the U.S. industry, Japanese consumers and builders and both governments. If negotiations are not successful, we recognize that the risks are high of further trade action. We understand that Congress is in no mood to sit idly by as another competitive U.S. industry loses billions of dollars in sales to Japan.

The unfortunate reality is that without that kind of increased political focus—in Congress and in the administration—resolution of this reasonable request for market access is likely to be late, little and ineffective.

THE BENEFITS OF SUCCESS

I would like to take a moment to discuss the fact that the benefits of success—for the U.S. industry, Japanese builders and consumers, and for U.S./Japan trade policy—are enormous.

Despite the U.S. industry's efficiency, despite our marketing efforts, a web of Japanese tariff and non-tariff barriers seriously impede the importation and use of wood products in Japan.

As a result, while the Commerce Department calculated that U.S. lumber mill costs averaged from about 33-50% of Japanese costs on a per volume basis and U.S. plywood mill costs averaged about 50% of Japanese costs, Japan still imports primarily raw materials from the United States. According to Japanese statistics, in 1988, less than 28% of Japan's wood products imports from the United States by value were processed. By comparison, 92% of U.S. wood exports to Europe were processed and 87% of U.S. exports to the rest of North America were processed.

The U.S. industry estimated that removal of barriers could increase U.S. shipments of value-added wood products to Japan by from \$1 to more than \$2 billion annually. Those figures are based upon conservative estimates about potential growth in Japanese consumption and U.S. share of that consumption. As new information becomes available, our economists are working closely with U.S. Government personnel on more refined estimates of the appropriate level of retaliation should Japan fail to open its markets. Given the relatively low level of wood use in Japan, compared with the economies of use of wood and the Japanese consumers preference for wood, elimination of the import and use restrictions might well increase exports of U.S. value-added products to Japan by much more.

At the same time, restrictions on importation and use of wood products are grossly unfair to Japanese consumers. Japanese consumers continue to live in homes which are, on average, half the size of American homes on a per capita basis. At the same time, Japanese homes tend to cost as much as 10 times the average Japanese family's annual income. In the United States, home prices average 3 times annual income. The cost of a wood home in Japan, setting aside land costs, is twice the cost of the *same home* built in the United States. Even when one considers land cost, easing of unreasonable restrictions on the building of wood apartment buildings in Japan could cut the average cost of wood housing in half. This should be a national outrage in Japan, but for whatever reason, the Japanese Government is unwilling or unable to correct this problem without clear action from the United States. Your efforts, Senator, will be very useful in this regard.

I would like to now ask Steve Lovett, vice president of International Trade at the National Forest Products Association, to discuss the specific Japanese barriers with

which we are concerned. Let me note, however, that elimination of the broad group of these barriers is necessary if we are to have true market access.

PREPARED STATEMENT OF C.P. "KIP" HOWLETT, JR.

Chairman Baucus, I want to thank you and the other Members of this Subcommittee for giving me the opportunity to testify today on the important issue of the wood products talks with Japan. As I am sure you are aware, the success of those talks is a matter of the greatest interest to the U.S. wood products industry.

My name is Kip Howlett, Jr. I am the Vice President for Government Affairs at Georgia-Pacific Corporation. Georgia-Pacific is one of the nation's leading manufacturers and distributors of forest products, with sales in excess of \$10 billion in 1989. We are the world's largest producer of plywood and a leading softwood lumber producer as well. Our company operates wood products production facilities throughout the United States, from California to Maine, and from Minnesota to Florida.

Georgia-Pacific is a member of the Alliance for Wood Products Exports and an enthusiastic supporter of the wood products market access talks with Japan. Georgia-Pacific forest products, like other U.S. forest products, are highly competitive in the international marketplace, and we have used our competitive edge to increase sales in Europe, Latin America and the Pacific Rim. We have a proven track record for marketing our products around the world, both through our own direct marketing programs and through industry market development programs.

Our corporate strategy is to increase exports of value-added products such as plywood, lumber and structural panels. The policy has been successful, and our exports of such products are booming. In Europe, for instance, 90% of our sales are of finished products. In Japan, however, that ratio is reversed. This is precisely the situation facing the entire industry. See attachment.

We are convinced that we would be able to increase dramatically our sales of value-added wood products in the Japanese market if the Government of Japan eliminated the trade barriers that keep us out, the barriers outlined by Stan Dennison and Steve Lovett. That is why we are such strong supporters of the Super 301 wood products negotiations. We believe that if the Administration, Congress and the industry fully commit themselves to the process, we can break down those barriers and tap the enormous potential of the Japanese market, for our benefit and the benefit of Japanese builders and consumers.

Senator Baucus, this fight over access to the Japanese wood products market has been going on for a long time. There were talks back in 1985 that generated an agreement that was supposed to solve the problems. In fact, the agreement was only a limited solution. The Department of Commerce did a detailed study of the problem in 1988 and 1989 and concluded that there were still tremendous barriers.

In 1988 Congress passed the Super 301 law and the Trade Representative picked Japanese wood products barriers as one of a handful of cases to receive priority attention. Since then, there have been five rounds of talks between the United States and Japan. The industry has worked closely with the Administration every step of the way, doing exhaustive research to give the U.S. Government the evidence it needed to prove its case. I think we have shown, beyond a shadow of a doubt, that the barriers we face are real and that they are totally unjustified.

The negotiations with Japan are now reaching a critical phase. With just a few months to go, the Government of Japan has made virtually no concessions and the talks are in danger of stalling out or succeeding with only half measures. If that happens, and the market is not fully opened, rather than harmony in our trading relations, there will be confrontation. The risks are great that the two countries are drifting toward confrontation now.

Senator Baucus, we want meaningful market access. Retaliation does not sell wood products, and it is not our goal. But real market access is necessary—a real opportunity to sell products we know the Japanese people want to buy. We ask that Congress and the Administration deliver the unequivocal message that full and fair access must be granted now for wood products, just as Japan expects and receives full access in the United States for its products. That is why we need your help; that is why your efforts this week are so crucial, and that is why I am here today.

The United States' experience in trade negotiations with Japan is a sad one. Repeatedly, the Government of Japan has shown that it will not give up an inch of ground more than it has to in trade negotiations. The Advisory Committee for Trade Policy and Negotiations recently concluded that the United States must "be tough and willing to use all [its] leverage" to win real concessions from Japan. The Committee further noted that, "when faced with credible threats of retaliation that

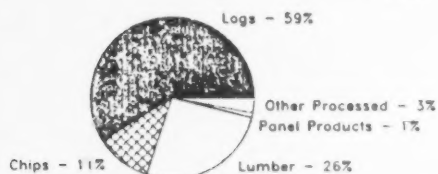
adversely affects their interests," Japan usually acts in its own best interests and comes to a mutually satisfactory arrangement. This is an appalling state of affairs.

Senator Baucus, I am convinced that the United States and Japan can achieve an agreement that provides real market access for U.S. value-added wood products. Such an agreement will benefit the American wood products industry, the Japanese construction industry and the Japanese consumer. But it will not be easy, and it will not just happen. The Administration will need the full and unequivocal support of Congress. The Government of Japan must know that we are serious about this issue. The wood products industry appreciates your efforts to communicate this message unequivocally.

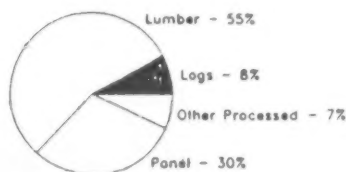
Attachment.

JAPAN'S BARRIERS TO WOOD PRODUCTS INHIBIT VALUE-ADDED IMPORTS

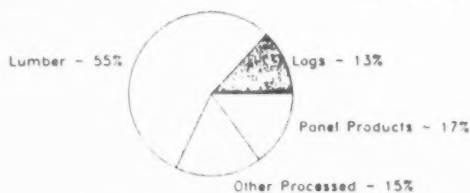
Developed Countries' Imports of U.S. Wood Products
1988 - by value



JAPAN'S IMPORTS OF
U.S. WOOD PRODUCTS



EUROPE'S IMPORTS OF
U.S. WOOD PRODUCTS



NORTH AMERICAN IMPORTS
OF U.S. WOOD PRODUCTS

Source: NFPA/FAS

PREPARED STATEMENT OF STEPHEN M. LOVETT

My name is Steve Lovett. I am the vice president of International Trade at the National Forest Products Association.

I would like to second the point that eliminating the Japanese barriers would benefit the U.S. and Japanese industries, the Japanese consumer and U.S./Japan trade relations. That doesn't mean that it will be easy. In fact, it has to be made perfectly clear that dramatic progress is needed or prompt action will be taken. Otherwise results will be, as Stan says, little, late and ineffective. My point is that we can succeed, if we can focus the discussion with enough congressional and administration interest and we can communicate our concerns effectively to Japan.

Let me now discuss the Japanese barriers. The Japanese barriers take a number of forms:

TARIFFS

Tariffs and tariff escalation seriously impede U.S. wood products imports. While even on a nominal basis, Japanese wood products tariffs are much higher than U.S. tariffs, the effective rate of protection on value-added products resulting from tariff escalation is often two to three times the nominal rate.

Efforts to eliminate tariffs have met with only limited success. In the Tokyo round of multilateral trade negotiations, wood products were included with agricultural products, and tariff reductions and bindings were limited. The same is likely to occur in the Uruguay Round without bilateral commitments.

While the moss talks did result in cuts in some wood products tariffs, moss clearly contemplated further tariff negotiations once the effects of the agreed to cuts were made.

The U.S. industry views tariff elimination as crucial to real market opening, which is the purpose of this endeavor. Solving some technical barriers while leaving high tariff escalation in place would not open the Japanese market.

STANDARDS/CODES

A web of unnecessary standards and code restrictions inhibit the use and importation of wood products in Japan. Let me be clear, we are not asking, and would never ask, that Japan in any way endanger lives or safety. Wood products are safe building materials, in many cases safer than the alternatives. Wood buildings are safer in earthquakes than the alternatives and, as Japanese officials have recognized, statistics demonstrate that construction type (be it wood, concrete or steel) has no relation to the incidence of death or injury by fire. Reasonable performance codes would fully protect lives and safety and, in many cases, actually provide better safety for Japanese consumers.

In this regard, inaccurate and distorted reports from the Japanese Government and press suggesting that the changes which the United States is seeking would endanger safety in Japan are inaccurate and counterproductive. For example, after the tragic San Francisco earthquake, an official of the Japanese Fire Marshal's Office issued a press report that wood buildings in San Francisco had sustained significant damage and that for safety reasons Japan had to prevent further modifications of its code.

That report ignored the facts: As in other earthquakes, wood buildings erected under modern codes performed exceptionally well in San Francisco because of high strength and flexibility. Wood performs better than many other materials (as California insurance board data confirm) Japanese safety scares (like reports from other trade disputes on how wet snow allegedly makes imported skis unfit for Japan and how the Japanese people's long intestines make U.S. beef unmarketable) are counterproductive and serve only to impede resolution of this matter.

Let me give you just a few specific examples of the types of code and standards problems which we are referring to:

- Japan's building laws do not permit three and four-story, multi-family wood housing (such as garden apartments) or construction of wood commercial or multiple use buildings.
- Japan does not recognize machine stress rated lumber, despite its superior performance.
- Japan restricts the ability of imported products to be certified for use in Japan. Thus, while West Germany, the United Kingdom and Sweden, for example, recognize grade stamps of approved U.S. agencies as certifying performance to specified levels, Japan will not. Even after the American plywood association became a Japanese foreign testing organization, a request which was only granted four years after the MOSS agreement on FTOs and one month after

designation of Japan under super 301, APA must still send the extensive materials certifying quality from each mill back to Japan for approval—in effect undermining the whole purpose of the moss negotiations on certification and the four year FTO effort.

These restrictions not only harm the U.S. and Japanese wood products industry, but they injure the Japanese consumer. Both for the sake of trade relations and for the inadequate housing conditions in Japan, these barriers to the safe, cost-effective use of wood products should be removed.

CUSTOMS MISCLASSIFICATION

In clear violation of the requirements of the customs cooperative council nomenclature, to which Japan subscribes, Japan has misclassified several high-tech U.S. wood products. This customs misclassification has artificially increased the tariff on structural laminated lumber products (so called glulam products) and laminated veneer lumber from 3.9% to from 15-20%.

SUBSIDIES

Two types of subsidies are of particular concern in these negotiations. First, having granted concessions in the MOSS market-opening talks, the Japanese government authorized massive counter-liberalization subsidies (150 billion in grants and government-guaranteed loans) intended to offset the effects of eliminating other trade barriers. Counter-liberalization subsidies should not be permitted after future market opening.

Second, the Japanese government has some capital and operating subsidies which have directly contributed to wood products production which would otherwise not have occurred. For example, some capital subsidies have obviously been used to finance modification of hardwood plywood mills (which can no longer obtain adequate log supplies) to producers of laminated products, in which the U.S. industry excels. This impaired the value of Japanese trade concessions.

STRUCTURAL ISSUES

In addition to these barriers, Japanese wood products consumption and importation is also impeded by structural barriers. These barriers include **restrictive land and housing policies, anticompetitive practices and an inefficient distribution system.**

While the U.S. industry realizes that reforms in these structural areas are only likely to have an effect in the long-term, we support the administration's efforts to address structural barriers in trade negotiations. The effect would be lower priced wood products and an inevitable increase in consumption.

DISCRIMINATION

Japan's barriers discriminate against U.S. wood products. These barriers are unfair and must be a priority concern for the United States.

First, many of the Japanese barriers discriminate directly against U.S. wood products. Tariff escalation, for example, impedes imports of value-added U.S. wood products in order to protect Japanese processors.

Many of the certification barriers are explicitly discriminatory. Perhaps the most important are the certification barriers. U.S. mills must each go through a lengthy and expensive certification process with Japanese authorities. This is true even though the American Plywood Association has been certified as a Japanese agricultural standards foreign testing organization. By comparison, Japanese mills can merely rely on their registered grading organization to certify their compliance with the regulations to the Japanese Government, just as organizations like the American Plywood Association certify mills in the United States. What makes this barrier so unreasonable is that U.S. grading agencies marks are accepted around the world and many important Japanese products are permitted to self-certify into the U.S. market.

Further, Japanese standards, such as approval for new products or systems and quality control requirements can be applied discriminatorily. One U.S. mill owner reported that while his company was undergoing rigorous quality control certification for JAS approval, he toured a competitor's mill in Japan where the quality control equipment was not even in operating order.

Second, many other Japanese barriers discriminate in favor of steel and concrete (produced domestically in Japan) against wood products. Even these barriers, however, primarily affect imported wood products because, given the cost of harvesting and processing in Japan or the nature of the barriers, a large percentage of in-

creases in wood consumption would be filled by imports. For example, if four-story wood apartment buildings were permitted in Japan, those apartments would be built largely of 2x4 construction (with wood products coming largely from the United States and Canada).

Moreover, as a matter of trade policy, it would be ridiculous to ignore this type of discrimination. Japan, for example, has a comparative advantage in the production of VCRs. Certainly Japan would consider it an unfair restriction if U.S. standards dramatically and unnecessarily impeded sales of all VCRs (U.S. or Japanese). By the same token, U.S. mills have a comparative advantage in wood products production, and they should be permitted to enjoy that advantage in an open Japanese market.

THE NEGOTIATIONS

The United States and Japan have been engaged in wood products negotiations since September. Unfortunately, Japan has shown little willingness to modify its restrictive market barriers, particularly tariffs.

Japan and the Japanese industry must be made aware of the importance of a successful resolution of these matters:

- From a trade policy perspective, the United States needs a signal in wood products negotiations that Japan is serious about opening markets and addressing the trade imbalance.
- Increased imports of high-quality, reasonably priced wood imports would benefit Japanese consumers and improve the quality and affordability of Japanese housing.
- Real progress in opening Japan's market to value-added wood products would have an enormous beneficial impact with respect to U.S. decisions concerning logs. NFPA's position on log exports is as follows: That the ban on exports of logs from Federal lands be made permanent, that regulations regarding substitution of logs be modified, and that private land owners have the right to seek the best markets for their products. NFPA takes no position on exports of logs from State lands.

Furthermore, I believe that because this is such a divisive issue for the industry, in my view it would be counterproductive to inject the log export issue into the Super 301 process. The log export issue should not be allowed to deter the United States from the real objective of fully opening the Japanese market for further processed wood products. Japan should understand that the best way to guarantee access to U.S. raw materials is to provide access to its market for value-added products.

- Failure to make real gains on wood products would seriously affect Japan in future implementation of the 1988 trade act (including 1990 designations) and in possible future legislation.
- Removal of the barriers would not significantly injure the Japanese industry because increased consumption could more than compensate for increased imports.

We hope that you will assist the U.S. industry in communicating the importance of a successful resolution of this problem to the Japanese Government and industry and involved parties in the United States. Success is so important to the U.S. industry and to U.S./Japan trade relations. Success may evade us, however, if Congress is not a full participant in the process.

Your interest, Senator Baucus, is critical to successful resolution of this dispute to the benefit of both countries.

COMMUNICATIONS

AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS,
February 26, 1990.

Hon. LLOYD BENTSEN,
Committee on Finance,
U.S. Senate,
Washington, DC.

Dear Senator Bentsen: On behalf of the more than 300 members of the American Association of Exporters and Importers (AAEI) involved in textile trade, and pursuant to Press Release No. H-2, we would like to take this opportunity to comment on the progress of the textile negotiations under the GATT Uruguay Round.

The Association has for many years maintained a position in favor of phasing out the artificial and disruptive trade restrictions on textiles and apparel under the Multi Fiber Arrangement, as was most recently set forth in an October 25 letter to U.S. Trade Representative Carla Hills from AAEI's Textile and Apparel Group. The AAEI was encouraged by the December 13, 1989 United States proposal to members of the Negotiating Group on Textiles and Clothing in that it articulated as one of the negotiating objectives full integration into the GATT of all trade measures affecting trade in textile and clothing.

The AAEI was, however, extremely dismayed by the suggestion in the December 13 communication and elaborated on in a February 5 communication that, during the "integration process," a viable alternative would be the conversion of "existing restraints both MFA and other types, into another form, e.g. a multilaterally agreed system, tariff rate quotas or 'global-type' quotas." The AAEI wishes to go on record in opposition to any form of quota globalization and suggests that the U.S. Congress urge the U.S. Administration to withdraw such proposals from the United States negotiating team's draft agenda proposals.

It is undisputed that quotas, and their restriction of open trade and associated market forces, impose far higher costs, and damage, on the United States economy than do tariffs and other temporary foreign trade regulation measures. They are the least transparent form of import restraint since they conceal from the public the cost of protection being afforded to domestic industry. As Professor John Jackson observed in a case book entitled *Legal Problems of International Economic Relations*:

"In contradistinction to non-prohibitive tariff and tariff like measures . . . QR's completely break the link between domestic and world prices."

This observation was confirmed by the recent United States International Trade Commission study on *The Economic Effects of Significant U.S. Import Restraints, Phase 1: Manufacturing*, USITC publication 2222, October, 1989, when the Commission estimated that the hidden charge for textile and apparel quota rents in 1987 was 5.16 billion dollars, of which over 92 percent was charged on apparel imports and would have been even higher but for the fact that a substantial volume of trade in textiles remains unrestrained (page 4-7). The ITC then concluded that:

Overall, the removal of MFA quotas and tariffs will result in a net United States welfare gain in the range of \$2.6 billion, \$2.5 billion, depending upon the domestic supply elasticity (ID. at 4-19).

Numerous studies have shown that, overall, high tariffs and quotas under the MFA on textiles and apparel cost U.S. consumers more than \$20 billion annually, or \$240 per average family. Moreover, the costs to consumers of the MFA are regressive, with the poorest 20% of U.S. families experiencing a 3.6% decline in their standard of living, or nine times the burden of an average household.

Since globalization of quotas represents an expansion of the present textile import quota arrangements, it is clear that said proposal would have a direct and dramatic

increase in cost to consumers and a concurrent decrease in net welfare benefits. Any expansion of present textile import quota arrangements would also undermine the existing multilateral opportunity for relaxation and progressive reduction of quantitative trade restraints that substitute the role of government into market mechanisms that thrive on more openness in trade, rather than greater restriction of the same.

Because of these concerns, we would like to ask your support in urgently requesting that the United States government refrain from pursuing any proposal in the Uruguay Round which contemplates globalization of quotas on textiles and apparel.

Sincerely,

EUGENE J. MILOSH.

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